

05 Oct 2020 | Rating Watch

Fitch Revises Rating Watch to Positive on Bankia's Mortgage Covered Bonds

Fitch Ratings-Madrid-05 October 2020:

Fitch Ratings has revised Bankia S.A.'s 'A+' rated mortgage covered bonds (cedulas hipotecarias, CH) to Rating Watch Positive (RWP) from Rating Watch Negative (RWN).

KEY RATING DRIVERS

Mirroring Bank Rating Actions

The Rating Watch revision on Bankia's CH mirrors the recent rating action on Bankia's Long-Term Issuer Default Rating (IDR), as there is a direct link between the two ratings (see "Fitch Places Bankia on RWP, Affirms CaixaBank on Merger Announcement" dated 29 September 2020 at www.fitchratings.com). Resolution of the RWP on Bankia's CH is directly linked to the resolution of RWP on Bankia, which may take longer than six months.

Unchanged Rating Uplifts

Bankia's CH are rated at its maximum achievable rating according to Fitch's Covered Bonds Rating Criteria, which is four notches above Bankia's Long-Term IDR consisting of a resolution and recovery uplifts of two notches each and no a payment continuity uplift (PCU).

Ample OC Compensates for Coronavirus Stress

Fitch expects the coronavirus crisis to negatively affect the performance of Spanish residential mortgages and commercial loans, as significant job losses are taking place, consumer demand is suffering and various markets continue to be depressed. To reflect this, Fitch's credit analysis of the cover pool has accommodated additional sensitivities linked to larger projected losses, which are fully compensated by the relied-upon overcollateralisation (OC) ratio of the covered bond programme (see Rating Sensitivities).

ESG - Governance

Bankia's CH have an Environmental, Social and Governance (ESG) Relevance Score of '5' for Transaction & Collateral Structure due the absence of a dedicated liquidity protection mechanism in the Spanish covered bond framework. This explains the PCU of zero-notches. Fitch rates the CH programme on a recovery basis approach and does not test for timely payment on the covered bonds.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of the bank's Long-Term IDR would lead to an equivalent upgrade of the CH, as there is a direct link between the CH rating and Bankia's Long-Term IDR.

The introduction of dedicated liquidity protection mechanisms that effectively mitigate payment interruption risk on the CH if the cover pool becomes the source of repayment. This is because CH have hard-bullet redemptions while the cover assets gradually amortise. In this scenario, Fitch would be able to assign a PCU greater than the zero notches currently.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of the bank's Long-Term IDR would lead to an equivalent downgrade of the CH, as there is a direct link between the CH rating and Bankia's Long-Term IDR.

If the lifetime projected credit losses on the cover pool are not fully compensated by the OC Fitch relies upon, the recovery uplift could be reduced. We view this scenario as highly remote considering the Spanish CH framework, which offers ample OC cushions, defining the cover pool as all the non-securitised loans within the balance sheet of the issuer.

Fitch's breakeven OC for the assigned rating of 18% corresponds to the lifetime credit loss expectation on the cover pool, which can change over time and is influenced by the profile of the cover assets. The estimated breakeven OC under the coronavirus baseline and downside sensitivities scenarios calibrated by Fitch would be 24.5% and 32.5%, fully mitigated by the relied upon OC that was 156.5% at end-June 2020 (see "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases -- Update" dated 8 September 2020).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in

a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The CH rating is driven by the credit risk of the issuer as measured by its Long-Term IDR.

ESG Considerations

Bankia's CH have an ESG Relevance Score of '5' for Transaction & Collateral Structure.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Bankia S.A.

---senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Rating Watch Revision; A+; Rating Watch Positive

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Covered Bonds Rating Criteria \(pub. 30 Jun 2020\) \(including rating assumption sensitivity\)](#)

[Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds \(Excel\) \(pub. 06 Dec 2019\)](#)

[Multi-Issuer Cédulas Hipotecarias Rating Criteria \(pub. 03 Sep 2020\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 23 Sep 2020\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 06 Dec 2019\)](#)

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